



LA TIMES

Small Dip in Pump Prices Doesn't Reflect Big Drop in Wholesale Costs, Experts Say

By Elizabeth Douglass

Gasoline prices eased in California for the second week in a row, the federal government reported Monday. But pump prices in the state remain stubbornly — and some experts say suspiciously — high.

The statewide average price for a gallon of self-serve regular fell 1.4 cents in the last week to \$2.083, according to the Energy Information Administration, the statistical arm of the Energy Department. Retail gasoline prices have fallen 2.9 cents over the last two weeks.

Despite the dip, some market watchers say prices should be even lower.

"We were expecting to see more than just a penny decline," said Claudia Chandler, assistant executive director of the California Energy Commission. Refiners and service station operators are "trying to hold on as long as they can to the higher prices to capture any profits that are still left."

Gasoline prices in the Golden State skyrocketed in February, jumping more than 16 cents in a week to well above \$2 a gallon after reported refinery troubles curtailed production. Retail prices peaked at a statewide average of \$2.112 a gallon March 8.

Now, the refinery troubles are in the past and production is up. Wholesale gasoline prices in Los Angeles, a key indicator of the state's fuel supply situation, have dropped to \$1.27 a gallon, down 30 cents since peaking at \$1.575 on Feb. 19, according to Tom Kloza, chief oil analyst at Oil Price Information Service, a company that tracks fuel prices.

"That's what the FTC chairman called an anomaly," said David Sandretti, spokesman for Sen. Barbara Boxer (D-Calif.), who asked the Federal Trade Commission to investigate California's latest gasoline run-up. Boxer said March 11 that the FTC was reviewing unspecified "anomalies" in the state's gasoline market.

Based on Monday's wholesale spot price for gasoline in Los Angeles — which has rising crude prices and tight supply worries factored in — retail prices in the city should be around \$1.87 a gallon, Kloza said.

The average pump price in Los Angeles is \$2.139, according to the EIA.

"There's a big refinery margin in there," Kloza said. "This is going to be the most profitable quarter ever for refiners in California and the West. They're going to have to gingerly release their earnings next month."

Only a handful of independent service stations pay the published wholesale price for their gas, but it still serves as an indicator of the overall trend in retail prices. In California, most stations sell branded gasoline and must pay the price set by the oil companies, which in many cases is higher than the wholesale price.

Companies that make most of California's gasoline are ChevronTexaco Corp., Shell Oil Products, BP, ConocoPhillips, Valero Energy Corp., Tesoro Petroleum Corp. and Exxon Mobil Corp.

Joe Sparano, president of the Western States Petroleum Assn., said retail prices are individually set by the thousands of service stations throughout the state. Sparano said he couldn't explain "why retail prices have not moved down apparently as quickly as wholesale prices have."

He said station owners may be trying to recoup earlier losses, saying that "it's the market and competitive factors in the marketplace that are going to drive prices."

Nationwide, crude oil prices have made a difference at the pump; about 2.5 cents is added to a gallon for every \$1 increase in the cost of a barrel of crude oil, according to Chandler of the state energy commission.

The benchmark grade of crude started the year at \$32.52 a barrel and hit a 13-year high of \$38.18 a barrel last week on the New York Mercantile Exchange, propelled in part by unusually low inventories in the United States, international unrest and expectations that the Organization of the Petroleum Exporting Countries would further tighten supplies by curtailing production April 1.

Still, the sharp rise in crude prices accounts for only about a third of the increase in California gasoline prices this year.

On Monday, the price of crude dipped slightly on hints that OPEC may postpone its planned production cutback, falling 97 cents to \$37.11 a barrel in New York trading.

Meanwhile, the pressure is mounting on the Bush administration to stop taking oil off the market to fill the Strategic Petroleum Reserve, which is 93% full, with 649.5 million barrels at the ready.

On Monday, a group of 53 House members released a letter to Bush that urged him to stop filling the reserve until prices subside.

While gasoline prices dipped in California, according to the EIA, they continued to go up across the country, rising 1.9 cents to an average of \$1.743 a gallon.